

MEMORANDUM FOR:

DCI
DDCI
MR GATES

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MEMO LDXed TO DCI by SECRETARY HAIG
AT 1950 HOURS ON 16 OCTOBER RE THEIR
TELEPHONE CONVERSATION. MEMO INCLUDED
IN DCI MORNING MATERIAL ON 17 OCT AT
REQUEST OF MR GATES.

SENIOR WATCH OFFICER
OPERATIONS CENTER

Not referred to DOC. Waiver applies.

Date 16 OCT 1981

FORM 5-75 101 USE PREVIOUS EDITIONS

GPO : 1981 O - 345-783

State Dept. review completed

SUBJECT: CIA Report on the West Siberian Gas Pipeline

An October 8 memo from Bill Casey to the President, senior White House staff, Cap Weinberger, and you says that the CIA has a report that completion of the West Siberian pipeline would be delayed by two years if we embargoed the shipment of two compressor components made by an American firm. The memo goes on to assert that the CIA believes that the American firm would not object to such an embargo.

Our information directly contradicts the CIA memo on both the effect of such an embargo and the American company's indifference to have the export of its products restricted. We do not know the source of this CIA information. Our source, however, is General Electric, the producer of the compressor components in question.

GE told us this week that a U.S. embargo of compressor components would be ineffective because a French licensee of GE technology, Alsthom-Atlantique, could produce equivalent components with a maximum lead-time of 16 months. If we embargoed compressors now, and Alsthom-Atlantique required the maximum time to retool, the pipeline could still come on stream as scheduled. The Soviets want the compressors in hand by September 1983, but gas from the pipeline is not scheduled to flow until 1985. The 1985 start-up date would give the French enough time to retool and ship the equipment in time to meet the Soviet timetable. And the compressor delays would not block the gas flow in any case. GE states that 50 percent of the projected gas flow can be achieved with only 10 percent of compressor capacity.

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GE also indicated to us that blocking U.S. compressor sales would not delay the pipeline because similar equipment is available from Rolls-Royce in the U.K. In August, Cap Weinberger and Richard Perle approached U.K. Defense Minister Nott about the possibility of the British embargoing Rolls-Royce sales for the pipeline. Nott responded that the idea was a "non-starter" and would be "politically disastrous" for the Atlantic Alliance, given the importance the Germans attach to the project.

Contrary to the CIA information, GE told us that the company would object to putting compressor components under an embargo. A senior GE official said that such an embargo would cause \$175 million in lost sales for the pipeline project alone and that GE would lose 875 man-years in employment opportunities. Further, GE asserted that an embargo would jeopardize its highly lucrative arrangements with its European manufacturing associates, who would supply most of the compressor components.

We have not taken a position on the GE sale of compressor components. There is some pressure from Defense to place this equipment under security controls at once. In a separate memo to you on additional Caterpillar pipelayer sales to the USSR, I suggested that questions on these specific export cases could be best resolved by an immediate Presidential decision on our policy towards the export of oil and gas equipment and technology to the Soviet Union. Stopping compressor sales in general and GE in particular would be inconsistent with your position on the broader licensing policy issue, which was for approval of equipment and denial of technology. My memo to you recommended that you call Ed Meese and ask him to press the President for a decision, for which we have been waiting for over a month.